EXECUTIVE SECRETARIAT

Routing Slip

TO:

		ACTION	INFO	DATE	INITIAL
1	DCI		✓		
2	DDCI				
3	EXDIR				
4	D/ICS		✓		
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7	DDO				
8	DDS&T		✓		
9	Chm/NIC				
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11	IG				
12	Compt				
13	D/EEO				
14	D/Pers				
15	D/OEA				
16	C/PAD/OEA		✓		
17	SA/IA				
18	AO/DCI				
19	C/IPD/OIS		✓		
20	NIO/ECON		✓		
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SUSPENSE ______ Date

Remarks:

Executive Secretary

12/10/82

Date

3637 (10-81)

THE SECRETARY OF THE TREASURY
WASHINGTON 20220

December 9, 1982

Executive Registry
82-13410

UNCLASSIFIED
(With Secret Attachments)

MEMORANDUM FOR THE VICE PRESIDENT
THE SECRETARY OF STATE
THE SECRETARY OF DEFENSE
THE SECRETARY OF AGRICULTURE
THE SECRETARY OF COMMERCE
THE DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET
CHAIRMAN, COUNCIL OF ECONOMIC ADVISORS
ASSISTANT TO THE PRESIDENT FOR NATIONAL SECURITY AFFAIRS
ASSISTANT TO THE PRESIDENT FOR POLICY DEVELOPMENT
UNITED STATES TRADE REPRESENTATIVE
DIRECTOR OF CENTRAL INTELLIGENCE

SUBJECT: Senior Interdepartmental Group on International Economic Policy (SIG-IEP)

A meeting of the SIG-IEP is scheduled for Wednesday, December 15, at 2:00 p.m., in the Indian Treaty Room (Room 474, Old Executive Office Building). Agenda items are: (1) Report on G-5 Meeting, (2) Report on EC Ministerial Meeting, and (3) Country Debt Issues. Attendance will limited to the principal, plus one.

Attached are the minutes of the SIG-IEP meeting held on November 29.

Donald T. Regan

Attachment

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B-2238

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SENIOR INTERDEPARTMENTAL GROUP -- INTERNATIONAL ECONOMIC POLICY

November 29, 1982
10:00 a.m.
Roosevelt Room

Attendees:

Treasury
Secretary Regan (Chairman)
Marc Leland

Office of the Vice President
Admiral Daniel Murphy
Philip Hughes

State
Allen Wallis
Mark Palmer
Richard McCormack

Defense
Fred Ikle

Agriculture
Secretary Block

Commerce
Robert Dederick
Bernie Kritzer

CIA

OMB
Alton Keel
Frederick N. Khedouri

CEA
Martin Feldstein

OPD
Edwin L. Harper

Transportation
Darrell Trent

Interior
James Watt
Robin West

Energy
Kenneth Davis
George Bradley

USTR
John Ray
Robert Reinstein

STAT

NSC
Robert McFarlane
Norman Bailey (Executive Secretary)
Roger Robinson
William F. Martin
Gaston Sigur

East European Debt. The Chairman introduced the first agenda item, Eastern European debt. Although its debt service is a manageable 25 percent, Yugoslavia has little cash to meet its obligations. It makes sense to try to see if we could put together a medium term financial package with our Allies (the U.S. share being some 15-20%). The U.S. would play an important and supportive role in this exercise but would look to the Europeans for leadership in putting together this package. Commercial banks have signed their 1982 debt rescheduling agreement with Poland and are providing 50 cents in new short-term trade credits for each dollar of interest paid by Poland. We can expect that with the release of Lech Walesa and the possibility of a lifting of martial law, the Allies will be anxious to move forward for 1982 rescheduling.

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When Congress reconvenes, we can also expect increased pressure from Senators Helms and Kasten to declare the Poles in default. A strategy for dealing with these conflicting forces needs to be worked out. Hungary will be seeking IMF Board approval of a standby program this month. The Commodity Credit Corporation is also proposing a $42 million guarantee for commercial credit repayable over three years. The Chairman instructed the Executive Secretary to coordinate agency activities in countries having debt problems through working groups reporting to the SIG-IEP.

Energy Alternatives to Soviet Gas. The Chairman then called on Under Secretary Wallis to introduce the second agenda item, the International Energy Security Group's domestic and international recommendations to reduce Allied dependency on Soviet energy. The CIA presented a sobering analysis of the role of Soviet gas in European gas markets, concluding that the Soviets can capture a significant portion of the market and, if left unchecked, could drive out the competitive alternatives, particularly the giant Norwegian Troll field. Hard currency earnings from gas sales alone could approach the levels of recent years total Soviet hard currency import expenditures. The group concurred with the recommendations set forth in the international report, including the need to urge the Europeans to limit their Soviet gas purchases to existing levels and to accelerate the rate of alternatives, particularly Norwegian gas.

Under Secretary Wallis then introduced the domestic report of the Group, the principal recommendations being to (1) phase in complete decontrol of natural gas prices by 1985, (2) partially lift the ban on sale of Alaskan oil to Japan and (3) give higher priority to the Administration's proposal for user fees to improve ports which would facilitate coal port dredging. The Group concluded that while these actions would not resolve the short-term problem of limiting Soviet gas sales, they could play a more important role over the longer run in improving the general world energy situation. By putting our own house in order, we also enhance U.S. credibility and our bargaining position with the Allies as we seek a commitment from them to develop alternatives to further Soviet gas purchases. In addition, energy exports from abundant U.S. reserves could play an important role in improving the U.S. trade balance. (The Cabinet Council on Natural Resources and the Environment will review these issues from a domestic perspective at its meeting on December 3.)

Norman Bailey opened the discussion on Alaskan oil export to Japan. The majority of the International Energy Security Group recommends that the Administration consider partially lifting the present ban on Alaskan oil exports to Japan to allow up to 200,000 barrels a day to be shipped. Japan could also be encouraged to invest in Alaskan energy development and be permitted to export their share of the new oil reserves developed. In return, the Japanese could be asked for economic and security concessions. Gaston Sigur reported that his recent discussion with high level Japanese officials confirmed that they are very interested in Alaskan energy and might be willing to make some concessions.

No one disputed that this free trade initiative made good economic sense. Opposition to such a policy is likely to come from some parts of Congress hostile to a "drain" America first approach. Maritime interests would also object to lost jobs resulting from a reduction in shipments from Alaska to the Gulf. There may also be some negative implications for the American shipbuilding industry which could have national security implications. Proponents argued that the impact on the maritime industry would be minimal; Congressional opposition might not be that strong given oil market surplus; energy exports would help U.S. trade balances; and such action would signal to the world community our interest in maintaining a free world trading system at a time when protectionist tendencies are abounding.

In addition, exporting some Alaskan oil reserves would give us the opportunity to replace that oil from elsewhere and, in doing so, assist efforts to help some oil exporting countries who are facing difficult financial situations (i.e., Mexico, Nigeria). Secretary Watt noted that part of the Congressional opposition could be softened if the focus were on allowing the Japanese to invest in and ship new Alaskan energy resources which might otherwise go undeveloped for lack of funds. He also noted that we should urge the Japanese to consider investing in a major Alaskan coal port to allow export of plentiful Alaskan coal to Japan and other Asian markets. Other participants noted, that to be appealing to the Congress, we will need some economic concessions from the Japanese.

The Chairman concluded that the majority of the participants had no serious objection to going forward with this idea and asked Secretary Wallis to convene a small working group to consider Congressional and Japanese approaches and to report back to the SIG-IEP promptly so that early action can be taken on this issue when the new Congress convenes. This issue should remain strictly confidential due to sensitivities on the Hill and in Japan.

Coordination of Emergency Debt Response. The Chairman stated that it was very important that the SIG-IEP be used to coordinate responses of the U.S. Government to LDC and Eastern European debt problems. The Chairman stated that two separate IGs coordinate issues and other assistance to (1) Eastern European countries and (2) Latin American countries should be established. These IGs should coordinate any official flow of funds that may be going to these areas. All members of the SIG-IEP as well as representatives of the Export-Import Bank and the Agency for International Development should be part of these working groups which would have the responsibility to see that no commitments be made without SIG-IEP clearance.

East-West Follow-up. The Chairman then reported that different working groups will be established to pursue the objectives established by the NSDD on East-West economic relations. Each will be chaired by the most interested department. Allen Wallis will serve as coordinator of the working groups at the preparatory level. The SIG-IEP will be responsible for reviewing the results of the working groups for submission to the President through the National Security Advisor.

GATT Ministerial. The Chairman then asked Allen Wallis to give an overview of the recently concluded GATT Ministerial. Progress was minimal. The most disruptive group was the European Community. Ambassador Brock will give a full report to the SIG-IEP on his return.

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